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Net Operating Loss Deductions

Journey to Austria

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Net Operating Loss Deductions*

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The net operating loss deduction is not synonymous with a tax refund, but so far in modern history we have had few opportunities to use the line reserved for it on the tax return. Only newly created taxpayers and the more stubborn losers on the Treasury Department's mailing list are apt to have losses which can survive the pendulous swing of the carry-back and come out of the past to complicate the current-year tax return as a carry-forward. For the majority, the loss goes back, either to hit the refund jackpot or to get lost in the jungle of statutory adjustments.

Corporations now pregnant with expected operating losses will not give birth to carry-backs with the glamour and tax appeal of yesteryear. Last year, and others before, the pendulum swung back into the period of the excess profits credit. The 1948 operating loss was born with the power to create an unused excess profits credit from its union with 1946, and working together, the twin carry-backs produced some oversized refunds. The 1949 loss carry-back is destined to dig alone for what it can salvage from the 1947 tax rate structure, except for the fractional part of an unused excess profits credit mathematically possible in the case of a fiscal-year corporation. For individuals, however, the carry-back has lost little of its tax appeal and is still a threat to the high-yield surtax brackets of 1947.

Claims for refund are the more elite examples of the tax technician's art—thoroughly researched, prepared with deliberation and forethought, and filed with the double assurance that nothing will happen

*This paper was presented at the Institute of Federal Taxation held at the University of Southern California School of Law in October, 1949, and is reprinted by permission of Matthew Bender & Company, publishers of the Proceedings of the Tax Institute.

The operating net loss is not quite as effective today as it was in recent years as it cannot now reach back into the era of the excess profits tax, which was repealed effective January 1, 1946. The situation is somewhat similar for individual taxpayers. Those individuals who first obtained the benefit of the marital income-splitting provisions by virtue of the Revenue Act of 1948, effective for taxable years beginning after December 31, 1947, could carry back a 1949 loss against the income for 1947 which was taxable at the higher rates, but losses for 1950 and subsequent years cannot be carried back at higher rates.

for a year or two and that anything can happen within a year or two. Since a loss deduction at this point in the economic cycle usually takes shape as a claim for refund, and since its technical pattern is intricate and bothersome, it might appear that the tax man should safely and sensibly wait for the loss to materialize and then set up salvage operations in accordance with the codified directions. But the carry-back refund is forever urgent, demanding professional skill of high quality from the moment of conception to the time it enters the taxpayer's bank account as a deposit. It demands knowledge of the ready-to-serve kind, whether a matter of diagnosis and advice or a life-saving transfusion of working capital.

Prompt Benefits Available From Carry-Back Refunds

Set yourself up, for example, as tax man for the M corporation—rayon and cotton piece goods. The date is September 14, and the corporation's treasurer, throbbing with the woe of the textile industry, wishes to see you. For the eight months ended August 31, the M corporation has lost $100,000. The walls are bulging with piece goods, the cash position has about disappeared; $10,000 is due tomorrow on last year's tax and another installment is due December 15. For you, the what-to-do is mere routine.

You determine that the expected loss for the year will result in a tax refund of $35,000, and hurry back to your office to prepare an application to the Collector of Internal Revenue which will automatically stop payment of the third and fourth installments of the previous year's tax, freeing working capital for other purposes. Subsequently, after the M corporation files its tax return, you prepare the tentative refund application, which gives validity to the application for deferment previously filed and makes payment of the net cash refund a matter of days instead of years.[1] This ready-to-go knowledge of the carry-back process can help navigate a particular business through a stretch of rough weather. Fuzzy knowledge can just as easily pile it on the rocks.

The Statutory Formula

It is fair to assume that anyone who makes a profession of dealing with tax returns has staggered through the definitive passages of Code section 122 anent the net operating loss, the net operating loss deduction, the carry-back, and the carry-forward. The section is remarkable for its enigmatic draftsmanship. Read objectively, its significance keeps slipping into obliquities until words and phrases pass before the eyes through a fog of semistupor, without the continuity of units in a train of thought.

[1] I.R.C. Sec. 3779-3780.

Subjectively, the section is paradoxical. It doesn't fit the established concept of taxable income and is hard to believe. Although the net operating loss deduction cuts through traditional accounting-period boundaries, it is not an averaging device. A loss as shown on a tax return does not necessarily offset an equivalent amount of taxable income. Instead, the Code requires that only a so-called "economic loss"[2] be matched against taxable income. It may be hoped that recommendations made by the Special Tax Study Committee to the Committee on Ways and Means in 1947,[3] that the Code be amended to eliminate some of the adjustments to the loss deduction, will yet be enacted into law.

In the meantime, a loss on a tax return should be regarded as an optical illusion until it proves itself in the crucible of section 122. It may not be the impressive amount its outward figure suggests, and it could be, by the Code's economic standard, a profit in disguise. Not until it goes through the refining process and comes out red may the tax-return loss properly be labeled a net operating loss. And, however much it may have shrunk in size, it is still far away from being a net operating loss deduction.

[2]H.R.Rep. No. 855, 76th Cong., 1st Sess., p. 16 (C.B. 1939–2, 504, 517).

[3]Report of the Special Tax Study Committee to the Committee on Ways and Means, Nov. 4, 1947, p. 28.

The "economically pure" loss is carried to the year at which it must first apply for entry as a net operating loss deduction. Perhaps that particular year can't use a net operating loss deduction because it, also, shows a loss. Nevertheless, before moving on, the net operating loss we are sponsoring may be forced to leave behind enough of its own red dollars to offset the net loss attributable to statutory deductions and exemptions which represent economic scum on the face of a tax return.[4] Our loss may by now be rather anemic, but we march it hopefully up to the next year which shows a nice fat income. And what probably happens? We may discover that the statutory deductions, exemptions, and credits which we have to buy back add up to more than the loss with which we came calling. Result—a net operating loss, but no net operating loss deduction.

The Basic Design

The basic design of section 122 can be tucked into a mental side pocket without causing an unsightly bulge, and used, with a little imagination, it can be very valuable as a road map and guide to bigger and better tax benefits.

First is the simple matter of orienting the loss year in relation to the carry-back, carry-forward sequence. With the loss year as

[4]I.R.C. Sec. 122 (b) (1).

dead center, the carry-back, carry-forward pendulum begins its arc from a point two years back, completes it at the point the loss is used up but not farther than two years ahead and swings free within the arc without diminution until a net operating loss in motion from an earlier year has been absorbed.[5]

The Code provides that the loss from one year cannot ride piggy-back on the shoulders of another year so as to extend its journey beyond the allotted two-year boundaries.[6]

The other statutory limitations and adjustments, dug up and transplanted from their parenthetical beds and cross-reference hide-outs, are easily recognized and catalogued. For multiple years, that is, for the loss year and the year or years to or through which the loss is carried, the income or loss as shown on the returns must be recomputed by excluding percentage or discovery depletion in excess of depletion based upon cost, by including wholly tax-exempt interest in gross income, and, now applicable to individual returns only, by using 100 per cent of capital gains and losses and excluding a net capital loss.[7]

[5]Reg. 111, Sec. 29.122–4(a).

[6]See U. S. Treas. Reg. 111, Sec. 29.122–4 (d) for illustration of carry-back, carry-over computation.

[7]I.R.C. Sec. 122(d) (1), (2), and (4), referred to in subsections (a), (b), and (c).

Must Absorb Normal Credits

The two remaining statutory adjustments of general application pack a smart punch and are not adverse to hitting below the belt. One requires that a corporation's loss absorb the normal tax credits (for dividends received and partially tax-exempt interest) before qualifying as a net operating loss deduction.[8] The other limits the nonbusiness deductions of an individual in the loss year to the amount of nonbusiness gross income.[9]

Another adjustment, allowing the excess profits tax paid or accrued within the taxable year as an addition to the loss, became generally noneffective with repeal of that tax. However, a taxpayer has filed a test case in the Federal District Court in Indiana, claiming that a deficiency in excess profits tax did not accrue, under the rule of the *Dixie Pines*[10] case, until settlement with the Treasury and is therefore an addition to an operating loss in the year of settlement.[11] The result of the test case, if the taxpayer prevails, may revitalize the excess profits tax provision of section 122.

[8]I.R.C. Sec. 122(c).

[9]I.R.C. Sec. 122(d) (5). Classification as to business or nonbusiness nature extends to capital gains and losses.

[10]Dixie Pine Product Co. v. Comm'r., 320 U.S. 516 (1944).

[11]Farnsworth Television & Radio Corp. v. Plummer. Federal District Court, Southern District, Indiana (Civil number 1828, Filed 21, 1949).

The depletion correction may present some mechanical troubles. A reason for adding percentage depletion to the list of statutory deductions in the first place was to avoid the valuation difficulties encountered with cost depletion. Section 122 blithely shoves them right back at us with neither gracious apology nor a word of cheer.

Nonbusiness Deductions

The limitation on the nonbusiness deductions of an individual presents difficulties both in mechanics and in theory. The Commissioner has taken an extremely dismal stand in the matter of deductions attributable to the regular conduct of a trade or business. State income tax on business income, for example, has been ruled to be nevertheless a nonbusiness deduction.[12] Losses incurred in the sale of assets used by an individual in a trade or business have been disallowed as deductions in computing a net operating loss on the theory that the selling of such assets is not the business regularly carried on by the taxpayer.[13]

The courts have so consistently upheld the Commissioner in his position on this issue that the legal profession is about to ask for a change in the rule book.

[12]I.T. 3951 (1949 Int. Rev. Bull. No. 9 at 4).

[13]See Lazier v. U.S., 170 F.2d 521 (C.C.A. 8th, 1948).

The Committee on Federal Income Tax of the Section of Taxation of the American Bar Association has passed a resolution recommending the amendment of section 122(d)(5) to grant individual taxpayers the same privilege now accorded corporations, to take such losses into account in computing the net operating loss.

Correlation with Current Year Transactions

Except for the specific statutory adjustments and limitations, the net operating loss is the excess of allowable deductions over gross income.[14] If the limitations are kept in clear sight, the taxpayer is in a position to make intelligent use of any available means to reduce income or increase deductions, or to reverse the process, so that the statutory loss provisions blend harmoniously with the color and design of the income pattern.

The tax return loss of an oil producer, for example, may be entirely absorbed by the multiple depletion correction. In planning a drilling program, it may be smart taxwise to schedule it so that no more intangible expense is incurred than the income of a particular year can absorb.

A corporation with a few investment stocks on its balance sheet is approaching the year end with a loss which will be offset by a

[14]I.R.C. Sec. 122(a).

dividend credit of the year to which it will carry. Perhaps the stocks can be sold at a profit and immediately reacquired, creating a capital gain which the loss will absorb and stepping up the basis of the stocks free of tax.

An individual with a loss carryback which will strike into a high surtax rate of a prior year should realize that a net long-term capital gain of the loss year may in effect be taxed at the full surtax rate. If he must complete a capital gain transaction under such circumstances, then perhaps it can be as an installment sale.

The timing of an expensive advertising program, the introduction of a new line of merchandise, the repair of plant facilities, or the scrapping of less efficient equipment may all turn upon an expert awareness of the net operating loss deduction and the chuck holes which can wreck it.

A carry-forward, of course, is of speculative value, but it carries with it into the future the opportunity for skillful weaving of the tax pattern.

Special Case Situations

The net operating loss of one spouse can be carried forward into a joint return to offset income of the other spouse,[15] and certain reorganized railroads are granted special privileges by statute,[16] but, generally speaking, the carry-forward is assumed to be a personal privilege which only the taxpayer can exercise and which cannot be transferred or assigned. The Code uses the words "If for any taxable year the *taxpayer* has a net operating loss . . .,"[17] and similar language in prior law was held by the courts to deny to new taxpayers the right to carry over losses of predecessors.[18]

Accordingly, a corporate reorganization which results in the creation of an entirely new taxable entity will block the carry-forward of losses of the transferors. If, however, as the result of a merger or consolidation, the legal entity of one member corporation is perpetuated, it would seem that losses of that member could properly be carried forward and availed of after consolidation and that losses after consolidation could be carried back to the premerger returns of the surviving taxable entity. The net operating loss deduction may therefore intrude as an incidental consideration in planning business-purpose acquisitions and split-ups and may be an important factor in a

[15]U. S. Treas. Reg. 111, Sec. 29.122–4(e).

[16]Public Law 189, 80th Cong., approved July 15, 1948. Regulations promulgated as T.D. 5642 (C.B. 1948-2, p. 70).

[17]I.R.C. Sec. 122(b).

[18]New Colonial Ice Co. v. Helvering, 292 U.S. 435 (1934).

decision to abandon or perpetuate a particular taxable entity.[19]

There is no requirement in the Code that a net operating loss deduction can be taken only when the taxpayer carries on substantially the same business in the loss years as in the income years.

In the absence of such a requirement, high dignity was accorded the taxable entity theory in the *Alprosa Watch Corp.*[20] case. There a net operating loss carry-over was allowed a corporation despite a change in name, stock ownership, and business situs, and a complete conversion from the business of manufacturing and selling gloves to that of buying and selling jewelry.

Losses in Liquidation

With respect to losses incurred during a period of liquidation, the Commissioner has now published his acquiescence [21] in the familiar *Acampo*[22] decision, conceding that operating losses of liquidating corporations may be carried back. However, if the liquidation has progressed to the point of a *de facto* dissolution, the theory of the *Wier Long Leaf Lumber Co.*[23] decision may be applied, as it was in the case of *Winter & Co.*,[24] and the carry-back denied. It is therefore possible for a corporation to lose the carry-back privilege before legal dissolution has been completed.

Conclusion

The net operating loss deduction is far more than just another statutory allowance, and extends beyond the confines of Code section 23(s) to impregnate the whole pattern of Federal income taxation. It is a powerful piece of tax machinery which the technician and the businessman must know how to operate. Allowed to run wild, it can wind up as a pile of junk, and the salvage value of the wreckage is not likely to compensate for the tax earning power which the machine would have developed under skillful and informed guidance.

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[19] A pertinent bit of *dictum* relative to the application of Code section 129 (acquisitions for the principal purpose of evading or avoiding tax) appeared in *Alprosa Watch Corp.* 11 T.C. 240, the Tax Court stating ". . . That section would seem to prohibit the use of a deduction, credit, or allowance only by the acquiring persons or corporation and not their use by the corporation whose control was acquired. . . ."

[20] 11 T.C. 240.

[21] I.R.B. 1949-11.

[22] Acampo Winery & Distilleries, Inc., 7 T.C. 629 (1946).

[23] Wier Long Leaf Lumber Co. v Comm'r., 173 F.2d 549 (C.C.A. 5th, 1949).

[24] Winter & Co. Inc., 13 T.C. No. 14 (July, 1949).

Journey to Austria

By H. Y. Kinard
(Philadelphia Office)

On a hot and humid day in mid-August, 1949, I was gratefully completing my last report preparatory to commencing my vacation. However, with appalling suddenness all plans were completely revised. Mr. Hood called me into his office and explained that he had just finished conferring with the president of one of our office's long-established clients, who on the previous day had entered into an option agreement for the purchase of a group of affiliated companies, and as much financial data in connection therewith as it was practicable to assemble, verify, and present by October 10th was desired. Subsequent conferences with officers of our client and of the holding company disclosed that the corporate organization contained three domestic corporations and interests ranging from eight to one hundred per cent (some on a contingent basis) in a number of companies located in Central Europe.

Henry Kreider, with whom I had collaborated on this client's periodic examinations for many years, was appointed to perform the required work on the records of the domestic companies, the European phase of the examinations being delegated to me. Harry Schmidt was to accompany me while Phil Taylor was assigned as a stand-by ready to leave on a moment's notice if needed.

After obtaining the necessary passports, military permits, visas, etc., Harry and I departed from LaGuardia Field, New York, on Wednesday, August 24, 1949, our destination by air being Zurich, Switzerland, via Gander, Newfoundland, Shannon, Ireland, and Paris, France. After a short layover in Zurich we boarded the Arlberg Express which was to transport us to Schwarzach, Austria, at which point we expected representatives of the foreign companies to meet us with motor cars and take us to our base of operations, Radenthein, Austria.

During the journey from Zurich to Schwarzach we first came into contact with the traditional Austrian folk costumes. I suppose that inasmuch as it was Sunday we were treated to a gala display. It seems that each section of the country has a costume distinctly its own. Most of them are basically the same, the main differences being colors and buttons. The stag leather shorts seemed most peculiar to us at first, but they are so commonly worn, even in business circles, that after a few days stay we accepted them as a matter of

course. We were told that these shorts are practically indestructible and are handed down from generation to generation. They also solve the problem of having trousers cleaned. From all appearances the cleaning of stag leather shorts is sacrilege. However, after a period of time they seem to acquire a distinctive personality, together with a certain amount of charm. That is, if you are not too fussy.

We were met at Schwarzach by a group of officials of the foreign companies, together with two English Vangaard station wagons and drivers. The distance from Schwarzach to Radenthein we found to be only about sixty-five miles. But in this section of the world they do not refer to distances as so many miles or so many kilometers. Instead, it is a drive of so many hours. After being there for a short while we could understand the reason. The roads at best are none too good and the terrain will vary from level valleys to precipitous mountain slopes. The distance of the journey means very little but the road to be travelled and the type of country in which it is located is all-important. Our drive to Radenthein was over roads varying from fair to downright primitive, based upon our standards, usually mountainous, with some grades being as steep as 29 degrees.

This portion of our journey by automobile initiated us into motoring in the European manner. It seems that the most important part of a European automobile is the horn, which is used blatantly on every possible occasion. Should pedestrians be using the road (which is usually extremely narrow and affords little or no shoulder on which they can walk) the driver of the car continues merrily along his way, not slackening his speed, the horn literally blaring. The poor pedestrian must dive for the nearest shelter to avoid being hit. It seemed to me that when a motor car approached, all pedestrian rights immediately evaporated. When approaching a blind curve (which are innumerable in those mountainous regions) the driver again sounds his horn violently and proceeds around the curve never diminishing his speed. If the horn were removed it is my opinion that its absence would render the car absolutely useless. An automobile trip is just one mad whirl with the horn blaring incessantly. How those drivers manage to have so few accidents is beyond me. However, while we had many hair-raising experiences riding in automobiles driven by Europeans, not once did we have a collision worthy of the name.

After several hours of driving we arrived at Millstatt, Austria, a resort town located approximately ten miles from Radenthein. We were informed that the living accommodations at the former location were far superior to those at

Radenthein. Automobiles with drivers were to be available for our daily transportation to and from work.

Our hotel accommodations at Millstatt, while not luxurious, were surprisingly satisfactory. Our rooms were large, airy, always spotless, and each had a small balcony overlooking Lake Millstatt, about a quarter of a mile distant. On all sides were the Austrian Alps. A more peaceful and lovely setting cannot be imagined. We were in the Province of Carinthia (Kaernten), the southernmost of the Austrian provinces, about thirty miles from the common junction point of Austria, Italy and Jugoslavia. Our hotel, which had the reputation of being the best in the province, had bath facilities of one tub to each floor (12 rooms), although each room contained a wash basin with hot and cold running water. To indulge in a bath was not quite so simple as at home. Baths were by appointment only. The first requirement was to locate the maid assigned to the floor and request a bath at a specified time. If someone else had already requested that time, it was necessary to modify plans accordingly. The necessity of advance requests was to guarantee a sufficient quantity of hot water at the appointed time, as the supply is not inexhaustible as in most first-class hotels in the States. At the specified time the maid knocks on the door and informs you that your bath is ready. When you enter the bathroom the water is drawn awaiting your immediate splashings. Most European hotels, however, do not supply soap. So, you potential travellers to the continent, take plenty of small cakes of American hotel soap with you.

The food at our hotel was excellently prepared and while not too well diversified, the portions served were more than ample. At no time during our entire stay did we suffer from a lack of sufficient nutrition. The eldest daughter of the hotel's owner supervised the kitchen and did everything within her power to prepare meals for us to our liking. She had evidently been schooled in the American manner of cooking for at no time were our meals cooked in the Austrian manner unless so requested. As we found Austrian cooking to be extremely heavy, such dishes were seldom requested. We were usually informed well in advance of mealtime what type of food was available, given our choice, and at the appointed hour the food requested was placed before us prepared in a most delectable manner.

Needless to say, we entered the client's office on that first day with a certain amount of trepidation. After all, we were outlanders and the purpose of our visit was known to only a few of the higher officials.

Happily, our fears were unfounded and we received the utmost cooperation from all employees of the organization. We had no idea what to expect in the way of accounting records but we were hopeful of preparing balance sheets as of June 30, 1949. Inasmuch as we arrived there on August 29th, this seemed to us to be a reasonable date.

Much to our consternation, however, we found that the accounting records had not yet been closed as at December 31, 1948. The management informed us that within the week they expected their regularly engaged wirtschaftspruefer (certified public accountant) to arrive from Vienna and he would complete his examination of their records for the year 1948 in "about a week" after his arrival. This was heartening news inasmuch as by that time we had discovered that the records for the year 1947 had been closed on November 29, 1948. So we eagerly set to work making the necessary preliminary surveys, expecting the records for 1948 to be closed within a very short period of time, after which we expected to prepare the June 30th statements. What we did not know then was the utter disregard for time contained in the mind of the average Austrian. We soon found that their conception of time according to their verbal statements and the actual time necessary to perform the stated functions differed materially. A comparison of the Austrian conception of time with the usually elapsed time would be somewhat as follows:

Austrian Conception	*Actual*
Five minutes	Fifteen minutes to one-half hour
Fifteen minutes	One to two hours
Half hour	Half day
One hour	The same day if the conversation is sufficiently early in the morning
About a day	Sometime the same week
About a week	Infinity

As an illustration, the Viennese accountant arrived a few days after we did. When we left approximately six weeks later the actual closing for 1948 which was to be completed in "about a week" after his arrival was still not fully concluded. We finally realized that our June 30th date was impractical and settled for December 31, 1948 financial statements.

Do not be misled by the foregoing. We received the utmost in cooperation and assistance from the employees and officials of the companies. It just seems that business is not the only important thing in the life of an Austrian as it is with many of us Americans. Other things in life are presumed to be just as important such as music, beer, swimming, skiing, etc. The people are basically gay and carefree and seem to be unable to comprehend the meaning of worry and hurry. There is an old

Viennese saying, very aptly illustrating this condition, which reads as follows:

> "The situation in Germany is serious but not hopeless; the situation in Austria is hopeless but not serious."

A contemporary Austrian writer, whose name I am unable to recall at the moment, has said:

> "We Austrians are not lazy; we merely have a predilection for not doing today that which can possibly be done tomorrow."

The reason advanced by the management for the apparent lateness in closing the accounting records was protection from the standpoint of taxes. In Austria substantially all taxes are levied upon the basis of income earned during a given year. In order that unknown or not readily measurable factors applicable to the year are reduced to a minimum, the records are held open until the last possible moment. Each business has what is commonly referred to as the thirteenth month in which those transactions occurring from January 1 of the subsequent year to the date of closing, applicable to the preceding year, are recorded.

The major taxes on income fall into two general categories, the trade tax and the income tax. The trade tax is a levy of approximately 15 per cent of profits before income tax, such trade tax being deductible for the trade tax computation. This appears to be a tax for local governmental purposes similar to local real estate taxes in the United States. No local property taxes of the type prevailing in the United States are presently in effect in Austria.

For the purpose of income tax calculation an exemption of 15 per cent of the taxable income was effective for 1948. The remaining 85 per cent was taxable at the rate of 55 per cent. For the years 1949 and 1950 the exemption has been increased to 20 per cent. At the time we left Austria the income tax rate of 55 per cent had remained unchanged for 1949, but a surtax of 20 per cent of the income tax had been added to defray the cost of foreign military occupation of the country. I might add at this point that the occupation costs incurred by the United States are not assessed against the Austrians as are those of the British, French and Russians.

The exemptions of 15 per cent for 1948 and 20 per cent for 1949 and 1950 are allowable only if the company has invested an equivalent amount in plant operating facilities. However, this investment need not be made within the taxable year, but can be carried out at any time up through the year 1952.

In addition to the taxes based on income, a special capital levy tax, consisting of two parts, was effective for 1948 only. The first part was a tax of 12 per cent on the computed net assets of the

company as of January 1, 1948 (not necessarily as per the books). The second part was a tax of 6 per cent on the increase in computed net assets between January 1, 1940, and January 1, 1948. Part one may be paid over a period of twelve years and part two may be paid over a period of six years. The tax may be paid with certain Austrian Government securities, acceptable at face value, which at the time of our examination were selling on the open market at approximately 40 per cent of face value. In addition, if the tax is paid in full before December 31, 1950, a 30 per cent discount can be obtained.

Before many days had elapsed, it became apparent that in order to complete the examination within our time limit, additional assistance would be needed. I accordingly cabled our Paris office requesting the services of an assistant who could speak fluent German and English. Luckily an individual possessing those qualifications was immediately available. I then cabled Philadelphia requesting that Taylor leave New York for Paris the following day, meet the Paris assistant at our Paris office, and proceed with him to Radenthein. Upon arrival we found that the Parisian whom we had expected was an Englishman by the name of K. H. Stottner. Stottner proved to be a linguist beyond all expectations. During our acquaintance we discovered that he spoke excellent English, German, French and Spanish, and to use his modest statement, "I can get along in Portuguese and Italian." All of his speech was delivered with a very precise British accent and although he was exceedingly fluent, the accent left no doubt in anyone's mind as to his origin. One of the waitresses at our hotel remarked one day, "Mr. Stottner certainly knows a lot of words but his accent is terrible; Mr. Kinard knows very few words but his accent is marvelous." His accent to the contrary, Stottner's assistance and knowledge of the language and customs proved invaluable to us. We were able to assign him to work at outlying locations, requiring only one person, without worrying whether or not he was able to get along conversationally with the personnel.

Before leaving the United States we were informed by officials of the prospective selling company that all officials and department heads of its European subsidiaries were able to speak English. This we found to be literally true, although the English of many of the department heads was little better than my German, which was woefully weak to say the least. We were fortunate in obtaining the services of a former British army officer, who had settled in Austria, to act as an interpreter when the occasion demanded. While Schmidt

was well able to carry on a casual conversation in German he soon found that a technical conversation was almost as difficult for him as for me. At times such as this, assistance of the interpreter was needed. This presented further complications in translating the "English" English of our interpreter into the "American" English which we understood. I am happy to relate that after a few weeks we had converted our interpreter to our way of thinking and speaking, even to the point where he was conversing in fairly creditable American slang.

Under the foregoing conditions, conferences which might require fifteen minutes to a half hour to reach a satisfactory conclusion in the States consumed hour after hour of time. In order to satisfy ourselves that all parties to a conference completely understood all pertinent facts, such facts were usually set forth both in English and in German in several different ways. When everyone present understood two sets of facts, both in English and in German, to mean the same thing, we felt it safe to proceed along our course. We found early in the engagement that unless we followed a cautious procedure such as this, many of the department heads were apt to jump at conclusions and inadvertently convey erroneous information to us.

After being on the engagement for approximately one week, I felt that some sort of a progress report should be submitted to our office. For obvious reasons I did not wish to use the cable facilities available in the office where we were working, so I decided to cable from our hotel. While many of the hotel employees and townsfolk spoke passable English, I was of the opinion that a cable phrased in American slang would not be susceptible to translation. So I laboriously wrote a concise report in English and then translated it into cable language, slang style. In order that the firm would not think that I was completely off the beam, my last phrase consisted of two words, "slang intentional." Imagine my embarrassment upon later learning that in transmission the phrase was cabled as "slang international"! Another amusing incident, relative to cables, transpired just as we were making preparations for leaving. Schmidt drafted a cable to the firm setting forth our schedule for returning home, signing it "Rover Boys." This was given to one of the hotel clerks for transmission. She telephoned the contents to the local cable office, which promptly informed her that it was inacceptable unless the sender's name was part and parcel of the message. "But," she replied, "the sender's name is contained in the message. His first name is Rover and his last name is Boys." The message was accepted without further question.

In general, communications from Austria to points outside the country are rather unsatisfactory. Not from the standpoint of service, but because of Russian snooping. Existing facilities necessitate all air mail, cables, and telephone calls to foreign points to clear through Vienna. Like Berlin, that city is controlled jointly by the four occupation powers, and again like Berlin, the Russians proceed to make themselves extremely obnoxious. They read all cables, make test readings of air mail, and record all telephone conversations. I came to the conclusion that my slang cable, which I sent off before learning the foregoing facts, must have caused my name to be entered in the Russians' little black book, as my mail was usually much longer arriving than that of my associates. After becoming aware of the foregoing situation, we frequently travelled to Tarvisio, Italy, a small town approximately 35 miles south of Radenthein, to send in our reports.

We were pleasantly surprised to find modern and extremely comprehensible accounting systems in use by the companies which we were investigating. In fact several were utilizing bookkeeping machines of American manufacture. The records were complete in every detail, in fact, too complete. Other than for receivables and payables no subsidiary ledgers were maintained and the number of accounts appearing in the general ledger was appalling. European business transactions also present problems not too often encountered in the examinations of the financial statements of domestic companies in the United States, mainly that of foreign exchange. It is necessary to record transactions affecting cash, receivables and payables in the monetary unit of Austria (the schilling) and also the monetary unit of the country in which the party to the other side of the transaction resides. Such transactions are not isolated but represent a relatively high percentage of the total, as a large portion of the companies' products are exported. To successfully engage in business of this nature with the blocked and partially blocked currencies prevailing today in most countries except the United States requires a great deal of international "know how." Barter transactions are not infrequent. In order to reduce the hazard of foreign exchange losses to a minimum, sales are billed, whenever possible, in United States dollars payable in the monetary unit of the country in which the sale is made, at the exchange rate prevailing as of the date of payment. The accounting aspects of such transactions can be readily visualized. However, after a few weeks of tortuous detail we found ourselves able to convert schillings into dollars, dollars into kronen, kronen into Swiss francs, Swiss

francs into English pounds, and so on, without a moment's hesitation or difficulty.

From the wirtschaftspruefer (certified public accountant) of the companies we learned much of public accounting practice now prevailing in Austria. Every corporation (aktiengesellschaft) is required by law to have annual examinations of its records made by a properly registered wirtschaftspruefer. The company is permitted to choose the individual or firm whom it wishes to make such examination. However, if no choice is made in the time prescribed by law, a wirtschaftspruefer will be appointed by the State. For him to be recognized and engage in public practice an examination similar to our C.P.A. examination must be passed and in addition the sum of 100,000 Austrian schillings (approximately $7,500 at the current rate of exchange) must be deposited in escrow as evidence of good faith. Should the wirtschaftspruefer engage in unethical practices, wilfully or negligently render false financial statements or reports, or otherwise violate the requirements of his position, his license is subject to revocation and the escrow deposit subject to confiscation. Financial statements, certified to by him, are required to be published in the designated official gazette of the State. At the present time there are only approximately 50 registered wirtschaftspruefers in the country. From the information at my disposal they seem to make out well financially.

The wirtschaftspruefer acts in more or less of a dual capacity. He is first responsible for the presentation of properly certified financial statements for publication in the State official gazette. Secondly, he acts in the capacity of field examiner for income tax purposes. The financial statements certified to by him and the income tax returns filed must be in agreement with the books of account. The income tax returns are subject to review by officials of the equivalent of our Treasury Department, but unless fraud is suspected no further field examination is made other than that of the wirtschaftspruefer.

Income taxes are attacked from the standpoint of the balance sheet rather than from that of the income account. The balance sheet must be conservatively presented under all conditions. The basic rule is that all possible decline in asset values must be recognized and provided for, but the reduction in the amount of a recorded liability may not be recognized until it is fully satisfied. Any resulting amounts of income or expense incidental to such a valuation procedure are reflected in the income account for that year and are includible for income tax purposes. As an example of this

procedure assets located in Germany required significant revaluation due to the German currency reform of June 20, 1948. The loss resulting therefrom was deductible for income tax purposes. On the other hand significant gains resulted from the revaluation of liabilities payable in German funds. However, if the liability was not fully satisfied (even though partly satisfied) at the balance sheet date, no reduction therein nor corresponding element of gain is allowable. Where long-term liabilities are recorded upon the books of account in German funds, this procedure can cause significant hidden reserves to result. The antithesis of the foregoing theory is that all liabilities must be fully provided for and increase in actual asset values over their book values may not be recognized. This latter theory has caused Austrian business enterprises to become reserve-conscious, in view of the almost confiscatory income taxes, inasmuch as the expense charge incidental to the creation of such reserves, once approved by the wirtschaftspruefer, becomes deductible for income tax purposes.

From conversations held with various officials it appeared that the Austrian wirtschaftspruefer who collaborated with us in our investigation occupies a position in the field of public accounting in Austria equivalent to that enjoyed by Col. Montgomery in the United States. The assistance which he rendered to us, especially in connection with corporate requirements and tax matters, proved invaluable. Had it been necessary for us to plunge into the sections applicable to accounting requirements of the equivalent of the corporate law, tax codes and tax regulations, translate or have translated the applicable portions thereof, much additional time would have been required.

This wirtschaftspruefer was a person approximately six feet four inches in height, weighing approximately 250 pounds, possessing a stentorian voice of a magnitude greater proportionately than his size. The more excited he became (and he was very easily excited) the louder he would speak, his discourse finally consisting of rumblings and roarings which could easily be heard over the entire office. To hold a confidential conversation was somewhat difficult. The rank and file employees, and in many instances the department heads, became awe-struck at his approach, and if the wirtschaftspruefer became excited and commenced to thunder, they became downright frightened and any answers required might border on incoherency. One company official asked me whether certified public accountants in the United States employed the same tactics and if so, what recourse was available to the client. The answer is, of course,

obvious. At the time of the next subsequent examination the certified public accountant would be available for duty elsewhere. It must be borne in mind, however, that in Austria the wirtschaftspruefer occupies a position roughly equivalent to that of royalty, his services are compulsory by law, and the profession does not seem to be overcrowded.

Austrian auditing procedures, many of which are prescribed by law, are basically similar to those used by us in the United States. On the other hand it appears that less attention is paid to detail work and control by the auditor is apparently given little consideration.

Transactions in which payments are made in actual cash far exceed those encountered by us in the United States both in the number of transactions and the amounts thereof. As a result cash funds are maintained at many locations. The imprest system is not used, cash receipts being included in the funds, and disbursements are made therefrom as proper invoices are presented. Periodic reports are submitted to the accounting department at the main office so that the transactions may be recorded on the general books of account and the true amounts of the cash funds be shown. Thus, the counting of cash funds becomes a significant operation of the audit program.

Remittances received in the form of checks are of necessity deposited in bank. Payments by check are usually limited to vendors not in the immediate vicinity, transfers to the various cash funds, and advances made on purchases of raw materials, supplies, etc. The last noted function is not uncommon, especially when the second party to the transaction is located beyond the borders of Austria. Business transactions in Europe are apparently conducted to a great extent on a "cash in advance" or a "cash on delivery" basis.

We discovered that the handling of checks drawn for payment differs to a certain extent from our own. The checks are drawn and signed as usual by the proper company officials. They are accumulated and submitted daily to the bank upon which they are drawn. At this point the bank charges the disbursements to the account of its depositor, then mails the checks to the various payees. A statement is rendered daily by the bank showing in detail all checks charged to the account. Disbursements are not entered upon the books of account until such daily charge slip is returned by the bank, which results in the formal record of disbursements lagging by a few days. The system described effectively places all checks issued in a category equivalent to that of a certified check.

Austrian corporate law provides that as of the close of the fiscal

year requests for confirmation of all bank balances and all open accounts must be mailed. Open accounts are presumed to represent amounts, of any description, due to or from any firm, individual, officer, employee, etc. Such an auditing requirement is in general a commendable one but its actual application strays a bit from accepted auditing procedures in the United States. The requests for confirmation are prepared and mailed by employees of the client. Replies are mailed to the client and accumulated by one designated individual who places them in the exact order in which the individual accounts appear on the records. When the wirtschaftspruefer arrives the replies are presented to him, together with the carbons of the requests for which no replies were received, for his examination and comparison with the records.

Paragraph 80 of the Austrian corporate law provides that advances to officers and directors must bear the approval of the Board of Directors at a date prior to the time the advance is made. In addition to verifying the amounts of such advances by confirmation as stated above, it is the duty of the wirtschaftspruefer to determine that the provisions of paragraph 80 have been complied with. If the advances are found not to be properly approved, or approved at a date subsequent to that of the advance, the wirtschaftspruefer is required to make full disclosure thereof in his annual report.

The maintenance of detailed plant ledgers is required by law, together with a physical inventory verification thereof at least once each year. It is not the duty of the wirtschaftspruefer to actually make this verification but it is his responsibility to determine that company employees have done so. If the plant ledger is not maintained, or if it is maintained and the annual physical inventory verification has been omitted, it is also his responsibility to so state in his annual report.

Certain tenets of plant accounting differ from those as followed by us. Additions to plant are thoroughly reviewed but the additions are not necessarily allowed to remain stated at cost. The State, through the examination of the wirtschaftspruefer, approves both the base of a plant asset for depreciation purposes and the rate of depreciation allowable. It may be the opinion of the wirtschaftspruefer that the cost of plant assets constructed by company employees is in excess of the fair market value of such facilities. Such being the case the cost is reduced to the fair market value, the necessary write-down being allowable as a deduction for income tax purposes. Concisely stated the valuation of plant facilities generally is cost or fair market value, whichever the lower. However, it is not the

prerogative of the company officials to determine fair market value in recording the transactions. Once the base and the rate of depreciation is approved by the wirtschaftspruefer its status remains unchanged in subsequent examinations.

A significant factor which required consideration in the presentation of financial statements was the matter of restitution claims resulting from the termination of World War II. The German Anschluss in March, 1938, just prior to the beginning of hostilities, created an immediate and radical change in the economic situation of Austria. Austria was converted into a German Province known as the Ostmark and its economy, by force if necessary, was modeled in line with the rearmament needs of the Germans. Business enterprises controlled by foreign capital were confiscated either by legal decree or by the collaboration of company officials remaining at the scene of its activities. Austrian industry was completely geared to the war effort of Germany and was dominated by the new German control. Plants were overhauled, modernized and expanded and the resulting profits, usually by the use of management contract fees, were systematically withdrawn into Germany proper by the new "investors," together with any other assets of value such as securities which could readily be transferred. When Germany surrendered on May 8, 1945, the assets remaining in Austria were taken over by the Allied property custodians and subsequently restored to the rightful owners determined by them. But this was only the beginning. It was not a difficult task for the owners to determine what had been left for them in Austria. To determine what assets had been siphoned into Germany was a herculean task. After such determination it was essential that all facts be clearly set forth in restitution claims and filed with the proper Restitution Court in Germany. When the claims were filed and complaints properly served to the alleged offending German Nationals, counterclaims were immediately forthcoming, usually for the investment in inventories and plant facilities in Austria during the war years. Whether of a frivolous nature or not, all such counterclaims were being given the utmost consideration by the German Restitution Courts, under the control of the Allied Powers.

In order for us to obtain complete facts relative to all claims it was necessary to visit Munich, Germany, at which point all complaints were filed relative to the affairs of the companies which we were investigating. In addition, a number of companies, the control of which had been confiscated during the war years, were located in the Munich area. Inasmuch as the

Austrian companies still retained a minority interest therein (with a contingent controlling interest should the restitution claims be allowed), we also requested permission to inspect their books of account. The Allied Property Custodian at Munich, under whose jurisdiction the companies were being operated, unhesitatingly granted us permission to inspect any records necessary to accomplish our purpose.

Minutes after we opened the first book we discovered that conditions in Germany, accounting-wise, were chaotic to say the least. On June 20, 1948, the German currency reform was consummated, at which time the new German deutschemark was born. Regulations setting forth the conversion of the old reichsmarks into the new deutschemarks were issued shortly thereafter but embraced only the conversion of cash in banks and on hand. Conversion procedures relative to other assets and liabilities were not promulgated until approximately September 1, 1949, over a year after the currency reform. As a result of the lack of conversion information few, if any, transactions were recorded between June 20, 1948, and mid-September, 1949, the time of our visit.

We did accomplish a great deal from our trip to Munich, notwithstanding the condition of the German accounts. We were able to obtain much valuable information relative to counterclaims which was not available to us in Austria. In addition we were able to inspect assets and limited records of other companies which indicated significant equities, although partially of a contingent nature.

While in Germany we were informed that one of the gravest problems facing the peoples of the United States, British and French Zones is that of caring for the so-called refugees. Refugees should not be confused with displaced persons. A refugee is a German National who has abandoned his home located in the Russian Zone, embarking for the greener pastures of the trizonal area. The great majority of these people are homeless, jobless and without any visible means of support. To the regular inhabitants of the trizonal area has fallen the task of caring for these refugees, now numbering hundreds of thousands. Commencing in 1949 a special tax has been levied upon business in the area to finance the relief and rehabilitation of such persons, but business enterprises controlled by foreign capital are exempt from the tax. It is no uncommon sight when motoring along the autobahn to see these refugees wandering aimlessly or hitchhiking along their way. It is significant that they are always facing to the west, never to the east.

The field work incidental to our investigation was completed early

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The L. R. B. & M. Journal

Published by Lybrand, Ross Bros. & Montgomery, for distribution to members and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvements; to encourage and maintain a proper spirit of cooperation and interest, and to help in the solution of common problems.

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EUROPE

LEONARD C. DAVID VICTOR L. NORRIS

Col. Montgomery Elected to the Accounting Hall of Fame

On May 19, 1950, at the Twelfth Annual Institute on Accounting sponsored by Ohio State University, Col. Montgomery was one of the three first named to the roll of honor of the new Accounting Hall of Fame. The selection was made by a Nominating Board of forty-five public accountants, industrial and governmental accountants, and accounting educators. Mr. Samuel J. Broad, Chairman of the Board, cited Col. Montgomery as follows:

(Continued on page 28)

Notes

Atlanta Office

Mr. Jennings spoke at the April meeting of the Atlanta Chapter of The Georgia Society of Certified Public Accountants on the subject "Effect of Bulletin 23 of the Committee on Auditing Procedure on Accountants' Opinions."

Mr. James P. Allen is serving on the Program Committee of the Atlanta Chapter.

Boston Office

Congratulations to Carl T. Keller who thirty-five years ago on May 4, 1915 opened our Boston office and who, in large measure, brought it to its present outstanding position in the community and in the firm.

Chicago Office

Mr. Harold L. Hoffman participated in a panel discussion at a technical session sponsored by the Illinois Society of Certified Public Accountants on April 27, 1950 devoted to "Case Studies on Defalcations." He also spoke on "Embezzlement" before the La Grange, Illinois Post of the American Legion on May 8, 1950.

Mr. Albert O. Zipser recently became eligible for membership in the "Quarter Century Club" and was presented with a suitably engraved wrist watch.

Cincinnati Office

On April 12 Mr. A. J. Starr gave a talk on "Public Accounting as a Career" before approximately one hundred and fifty accounting students at Miami University, Oxford, Ohio. This talk was a part of the three-day program sponsored by the University designed to assist students in deciding upon just what type of business or profession they should prepare for. The three-day program included talks and discussions by some fifty business and professional men.

On the same evening Mr. Starr was initiated, as an honorary member, into Omega Chapter, Beta Alpha Psi. At the banquet he gave a brief talk on some of his personal experiences in public accounting.

Cleveland Office

Mr. Edwin P. Noell is now associated with Mr. Kork as a resident partner in Cleveland, having transferred from the Detroit office on June 1, 1950. Mr. Noell entered our New York office in 1929 and remained there until 1940 when he was transferred to the Cleveland office as office manager under Mr. Kork. After serving with the armed forces from 1942 to 1946, Mr. Noell became associated with our Detroit office, being made a partner in 1947. His return to Cleveland will un-

doubtedly be welcomed by the clients of that office and by his numerous friends in that city.

Dallas Office

Major A. Moss is serving as special representative of the Mayor and Council of the City of Highland Park in the negotiation of equitable sewerage contracts between Highland Park and the City of Dallas.

Mr. Arthur was elected a National Director of the English Speaking Union of the United States. He is also a special assistant to the Budget and Finance Committee of the Dallas Symphony Orchestra, Inc. In recent months he has addressed the Houston and Dallas Chapters of the Texas Society of C.P.A.'s, the Shreveport Chapter of the Louisiana Society of C.P.A.'s, and the Third Annual Accounting Conference held at Texas A. & M. College.

Detroit Office

Messrs. R. E. Savala, C. J. Kree, A. W. Lewis, C. W. Brieske, A. L. Mack and G. G. Valentine have obtained their Michigan C.P.A. certificates.

Houston Office

Mr. W. R. Crouch has completed a year as Chairman of the Houston Chapter of the Texas Society of C.P.A.'s and will serve as a Director of that chapter for the coming year.

Los Angeles Office

The following members of the organization spoke before various industry groups of the National Association of Credit Men at its Convention in Los Angeles on May 15-18; Mr. H. G. Bowles delivered a paper entitled "Computing Adequate Reserves for Doubtful Accounts"; Mr. C. A. Pearson spoke on the subject "Taxes and the Credit Man"; and Mr. Warner covered the results of a research project entitled "Why Are There So Many Business Failures Today?"

Mr. H. G. Bowles was re-elected a Director of the California Society of C.P.A.'s and of the Los Angeles Chapter. He was also elected First Vice-President of the Los Angeles Chapter of N.A.C.A.

Louisville Office

Mr. Halloran and sixteen staff members attended the Kentucky Institute on Accounting and Tax Practitioners' Forum at the University of Kentucky held on May 9 and 10 under the joint sponsorship of the College of Commerce of the University of Kentucky and the Kentucky Society of Certified Public Accountants. Mr. J. Wesley Huss served as chairman of a panel discussion following addresses by Carman G. Blough on "Current Accounting Problems" and Professor W. A. Paton on "The Use of Accounting Data in Economic Analysis."

Messrs. J. Martin Conder and Gaylord C. Hall, Jr. have been admitted to the Kentucky Society of Certified Public Accountants.

New York Office

It is with deep regret that we report the death of Nathaniel B. Bergman on May 23, 1950. Nat entered the employ of our Philadelphia office in 1909 and in 1917, after a brief interlude with one of our clients, joined the New York staff.

He was respected and beloved by all who were associated with him, both for his kindly courtesy in his daily contacts and the conscientious and thorough manner in which he performed his work. It was a privilege to have had him with us for so many years.

The Misses Lillian M. Arnold, Margaret Connors and Gertrude Schlingloff recently completed twenty-five years' service with the firm. They each received a suitable present from the firm, a wrist watch from the staff and office force, flowers from the Quarter Century Club, and were tendered parties at Fraunces Tavern by their department associates.

Mr. R. G. Ankers took part in the recent conference on professional accounting problems at the College of the City of New York. He spoke June 28 at the 17th Annual Conference of the N. Y. State Society of C.P.A.'s at Saranac, New York, on the subject, "How to Make Use of the A.I.A. Personnel Testing Program."

Mr. Jennings spoke at the Annual Conference on "How to Comply with A.I.A. Auditing Procedure Statement No. 23."

Mr. A. R. Kassander has been elected Vice-President, New York Chapter, of the National Association of Cost Accountants.

Mr. Lambert H. Spronck talked to the Greenwich, Conn., Chapter of N.A.C.A. in April on "Analysis and Evaluation of Balance Sheets and Operating Statements."

Messrs. David P. Blake, Robert H. Horst and Alvin J. Kruchten have been elected members of the New York State Society of Certified Public Accountants.

Philadelphia Office

Mr. Hewitt conducted the Accounting Session on April 14th at the annual conference of the Philadelphia Area Student Chapters Society for the Advancement of Management, which was held at Drexel Institute of Technology.

On April 20th, Mr. Hewitt spoke on the "Activities of the Certified Public Accountant" before the Annual Accounting Forum at Villanova College, Penna., sponsored by the Philadelphia Chapter, Pennsylvania Institute of Certified Public Accountants in cooperation with

Colleges and Universities of the Philadelphia Area, and Controllers Institute of America; National Association of Cost Accountants; Institute of Internal Auditors, Inc., and Tax Executives Institute, Inc.

Mr. Petty also spoke at one of the Forum sessions on the subject of "Relations with the Securities and Exchange Commission."

Mr. Cyril P. Gamber was Chairman of a Panel Discussion on "Case Studies of Cost Control" presented on May 18th by the Philadelphia Chapter of The National Association of Cost Accountants. He has been elected Director of Education of the Philadelphia Chapter of N. A. C. A. for the year beginning July 1st.

Mr. Mahon presented "Tax Implications of Transactions between Affiliated Corporations" in a speech to the Philadelphia Chapter of Tax Executives Institute, Inc. on April 19th. On May 2nd he talked on "Placement Problems" before the LaSalle College Personnel Seminar at the College, and on May 10th, addressed the Institute on Taxation of Pennsylvania State College on the subject of "Tax Problems of the Coal Industry."

At the annual meeting of the Philadelphia Chapter of the Pennsylvania Institute of C.P.A.'s on May 17th, Mr. Harry C. Zug was elected Secretary for the ensuing year, and Mr. John L. Moneta was elected a member of the Executive Committee of the Chapter for a term of two years. Mr. Mahon continues to serve on the Executive Committee for another year.

Mr. Thomas P. Handwerk spoke at the "Opportunity Conference" held by Peirce School of Business Administration in Philadelphia on May 20th, at which time he presented to the student audience an analysis of the work of a certified public accountant.

San Francisco Office

Mr. Keast was host at a staff golf tournament at the San Francisco Golf Club on March 31. Mr. Keast had low gross and low net, and every participant won a prize, the committee in charge displaying considerable ingenuity in finding reasons therefor; for example, one golf ball for the greatest number of elevens on a score card. After the tournament the players joined the rest of the staff for a dinner at the Bohemian Club, followed by card and domino games far into the night. It was a very successful occasion.

Mr. Giles has been nominated for the offices of President of San Francisco Chapter, California Society of Certified Public Accountants, and member of the Board of Governors, San Francisco Chapter, Institute of Internal Auditors. He gave a talk on "Current Developments in Audit Programs" at the March meeting of the latter organization. In May, he spoke on

"Auditing Trends" at an accounting conference at Sacramento State College, sponsored by the Sacramento Chapter of the California CPA Society, and at the monthly meeting of the San Jose Chapter of the Society.

St. Louis Office

Mr. Joseph W. Bower has been elected secretary of the St. Louis Chapter of the Missouri Society of Certified Public Accountants.

Seattle Office

As chairman of the Program Committee for the Seattle Chapter of the Washington Society of Certified Public Accountants, Mr. R. L. Aiken arranged for a joint meeting with the Seattle Association of Credit Men. This was the first joint session with the Credit Men since before the war and was so well received that plans are being made to have similar meetings annually in the future.

He presided over the technical session presented at the May meeting of the Seattle Chapter, and recently talked to the senior class in auditing at the University of Washington on verification of financial statements.

The following members of the organization have been elected to membership in the American Institute of Accountants:

James F. Dulin, Philadelphia
Alvin J. Kruchten, New York
James F. Meredith, Jr., Philadelphia
Walter F. Raab, Philadelphia

Journey to Austria

(*Continued from page 21*)

in October. At that time we discovered, much to our dismay, that available space, both by air and water, to New York was infinitely sparse. After a great deal of anxiety and exhortation we were able to obtain reservations to that point by air from Munich, Germany. Bidding farewell to our many newly found friends in Radenthein and Millstatt we motored from the latter point to Munich. From there we were flown by Pan American World Airways to New York via Stuttgart and Frankfurt, Germany; Brussels, Belgium; London, England; Shannon, Ireland; Gander, Newfoundland; and Boston.

While our investigation necessitated our visiting several countries of Europe, the great majority of our work was performed within Austria. Due to the time element confronting us we were unable to visit the many points of natural beauty surrounding us or acquaint ourselves with the multitude of

historical locations which were readily accessible. From our limited observations we found Austria to be the most interesting and charming of the European countries visited by us and the gaiety, graciousness and friendliness of its inhabitants will long be remembered. To return at some future date, under more favorable circumstances, and partake of the limitless possibilities of this delightful territory should prove to be a project par excellence.

Editorial

(*Continued from page 22*)

Mr. President:

The Nominating Board of the Ohio State University Hall of Fame presents Robert Hiester Montgomery.

A native of Pennsylvania, Colonel Montgomery was one of the founders of the firm of Lybrand, Ross Bros. & Montgomery, in which he is still active. He pioneered in accounting education as a member of the faculty of an evening school sponsored by the Pennsylvania Institute of Accountants as early as 1902. This subsequently led to the organization of a School of Accounts and Finance at the University of Pennsylvania where he later lectured during the school year 1905-1906. He participated in organizing the first International Congress on Accounting, held in St. Louis in 1904; he was chairman of the International Congress on Accounting held in New York in 1929; and represented the American Institute of Accountants at the International Congress on Accounting in London in 1933. He also was official representative of Columbia University, where he served as professor of accounting from 1919 to 1931, at the International Congress on Accounting held in Amsterdam in 1926. As a teacher at Columbia University he challenged the students in his classes to be faithful to their professional trust. Chaucer would have said of him: "Gladly would he learn, and gladly teach."

In the Spanish American War Colonel Montgomery took part in the Puerto Rico Campaign. As a Lieutenant-Colonel in the First World War he rendered distinguished service in the office of the Director of Purchases and elsewhere. Later he served as executive secretary of the War Policies Commission in Washington and was director of research and planning under the NRA.

Over a span of 40 years or more Colonel Montgomery has earned and received about all of the honors which the accounting profession can bestow and he has accepted and discharged to the full all of the responsibilities assigned to him. He was President of the American Association of Public Accountants, the predecessor of the American Institute of Accountants, from 1912 to 1914, and President of the American Institute from 1935 to 1937.

As an author, his books on Federal Taxes and on Auditing through their successive editions, have become accounting classics.

As one of the founders of the profession in the United States, as one who has been steadfast in the demand for high ethical standards especially during its formative years, as a teacher and author, and finally as a still active elder statesman who has been a continual source of inspiration to the young men and women entering the accounting profession, the Nominating Board is privileged to present for the Ohio State University Hall of Fame, Robert Hiester Montgomery.

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Robert

Lybrand, Ross Bros. & Montgomery

Offices

Cities	*Addresses*
Atlanta 3	Healey Building
Baltimore 2	First National Bank Building
Boston 10	80 Federal Street
Chicago 4	231 South LaSalle Street
Cincinnati 2	Carew Tower
Cleveland 15	Midland Building
Dallas 1	First National Bank Building
Detroit 26	Book Building
Houston 2	1114 Texas Avenue
Los Angeles 13	510 South Spring Street
Louisville 2	Heyburn Building
New York 4	90 Broad Street
Philadelphia 2	Packard Building
Pittsburgh 22	Oliver Building
Rockford, Ill.	321 West State Street
San Francisco 4	100 Bush Street
Saint Louis 1	411 North Seventh Street
Seattle 1	Skinner Building
Washington 5	Continental Building

Europe

London, England . . .	3 St. James's Square, S. W. 1
Paris 1, France	39 Rue Cambon